

ECAP ENTERPRISES, INC.
(A Texas Nonprofit Organization)

Annual Financial and Compliance Audit

Years Ended August 31, 2019 and 2018

ECAP ENTERPRISES, INC.

(A Texas Nonprofit Organization)

Year Ended August 31, 2019 and 2018

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ECAP ENTERPRISES, INC.
CDN: 101855
(Federal Employer Identification Number: 76-0644461)

Certificate of Board

We, the undersigned, certify that the attached Financial and Compliance Report of ECAP Enterprises, Inc. was reviewed and (check one) approved disapproved for the year ended August 31, 2019, at a meeting of the governing body of the charter holder on the 27th day of January, 2020.



Signature of Board Secretary



Signature of Board President



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
ECAP Enterprises, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of ECAP Enterprises, Inc. (the "Organization"), which comprise the statements of financial position as of August 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

4828 Loop Central Dr.
Suite 1000
Houston, TX 77081
Phone: 713.968.1600
Fax: 713.968.1601

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of August 31, 2019 and 2018, and the changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedules, as listed in the table of contents, as required by the Texas Education Agency, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2020, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



Houston, Texas
January 27, 2020

ECAP ENTERPRISES, INC.

(A Texas Nonprofit Organization)

Statements of Financial Position

August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets:		
Cash	\$ 771,494	\$ 638,233
Due from governments	45,818	22,711
Total Current Assets	<u>817,312</u>	<u>660,944</u>
Noncurrent Assets:		
Property and equipment, net	1,527,207	1,476,403
Total Noncurrent Assets	<u>1,527,207</u>	<u>1,476,403</u>
TOTAL ASSETS	<u>\$ 2,344,519</u>	<u>\$ 2,137,347</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 32,615	\$ 39,848
Accrued wages payable	55,280	34,988
Line of credit	-	39,956
Other liabilities	36,527	27,318
Current portion of loan payable	34,187	35,416
Total Current Liabilities	<u>158,609</u>	<u>177,526</u>
Noncurrent Liabilities:		
Loan payable, net of current portion	1,140,133	1,188,584
Total Noncurrent Liabilities	<u>1,140,133</u>	<u>1,188,584</u>
TOTAL LIABILITIES	<u>1,298,742</u>	<u>1,366,110</u>
Net Assets:		
Without donor restrictions	13,943	-
With donor restrictions	1,031,834	771,237
TOTAL NET ASSETS	<u>1,045,777</u>	<u>771,237</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,344,519</u>	<u>\$ 2,137,347</u>

The accompanying notes are an integral part of these financial statements.

ECAP ENTERPRISES, INC.
(A Texas Nonprofit Organization)

Statements of Activities
For the Years Ended August 31, 2019 and 2018

	Unrestricted	Temporarily Restricted	August 31	
			2019	2018
REVENUES				
Local Revenue:				
Food service sales	\$ -	\$ 3,615	\$ 3,615	\$ 1,429
Other revenues from local sources	13,943	2,782	16,725	16,797
Total Local Revenue	<u>13,943</u>	<u>6,397</u>	<u>20,340</u>	<u>18,226</u>
State Program Revenue:				
Per Capita and Foundation School Program Act Revenue	-	2,309,322	2,309,322	1,974,105
State Program Revenue distributed by the TEA	-	1,972	1,972	1,604
Total State Program Revenues	<u>-</u>	<u>2,311,294</u>	<u>2,311,294</u>	<u>1,975,709</u>
Federal Program Revenues:				
Federal Revenue distributed by the TEA	-	480,370	480,370	300,061
Total Federal Program Revenues	<u>-</u>	<u>480,370</u>	<u>480,370</u>	<u>300,061</u>
Net Assets Released from Restrictions:				
Restrictions satisfied by payments	2,537,464	(2,537,464)	-	-
Total Net Assets Released from Restrictions	<u>2,537,464</u>	<u>(2,537,464)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>\$ 2,551,407</u>	<u>\$ 260,597</u>	<u>\$ 2,812,004</u>	<u>\$ 2,293,996</u>
EXPENSES				
Program services:				
Instruction	\$ 1,399,223	\$ -	\$ 1,399,223	1,044,662
Curriculum and instructional staff development	34,281	-	34,281	24,785
School leadership	248,095	-	248,095	215,251
Guidance, counseling & evaluation services	24,612	-	24,612	23,906
Health services	269	-	269	47
Student (Pupil) transportation	77,006	-	77,006	66,283
Food service	177,387	-	177,387	172,017
Extracurricular activities	5,535	-	5,535	7,051
General administration	228,549	-	228,549	217,513
Facilities maintenance and operations	218,718	-	218,718	240,407
Security and monitoring services	33,269	-	33,269	22,298
Community services	15,514	-	15,514	10,302
Debt services	75,006	-	75,006	66,745
TOTAL EXPENSES	<u>2,537,464</u>	<u>-</u>	<u>2,537,464</u>	<u>2,111,267</u>
Loss on sale of land	-	-	-	(91,228)
Change in net assets	13,943	260,597	274,540	91,501
NET ASSETS, BEGINNING OF YEAR	<u>-</u>	<u>771,237</u>	<u>771,237</u>	<u>679,736</u>
NET ASSETS, END OF YEAR	<u>\$ 13,943</u>	<u>\$ 1,031,834</u>	<u>\$ 1,045,777</u>	<u>\$ 771,237</u>

The accompanying notes are an integral part of these financial statements.

ECAP ENTERPRISES, INC.
(A Texas Nonprofit Organization)

**Statement of Functional Expenses
For the Year Ended August 31, 2019**

	Program Services			Supporting Services						
	Instructional and Instructional Services	Instructional and School Leadership	Total Program Services	Support Services - Student (Pupil)	Support Services - Non-Student Based	Community Services	Debt Service	Administrative Support Services	Total Support Services	Total Expenditures
EXPENSES:										
Teachers and other professional personnel	744,640	130,892	\$ 875,532	76,633	32,074	13,975	\$ -	104,414	\$ 227,096	\$ 1,102,628
Support personnel	135,319	61,048	196,367	73,215	44,836	-	-	40,953	159,004	355,371
Employee Benefits	129,885	19,790	149,675	15,756	3,334	1,048	-	12,594	32,732	182,407
Total Payroll Expenses	1,009,844	211,730	1,221,574	165,604	80,244	15,023	-	157,961	418,832	1,640,406
Professional services	26,742	-	26,742	1,055	7,080	255	-	16,898	25,288	52,030
Education Service Center Services	1,055	350	1,405	40	-	-	-	-	-	1,405
Contracted, maintenance and repair	1,495	249	1,744	3,026	16,728	-	-	-	19,754	21,498
Utilities	898	-	898	-	65,814	-	-	-	65,814	66,712
Rentals	67,408	-	67,408	4,099	4,176	-	-	-	8,275	75,683
Miscellaneous contracted services	88,793	10,875	99,668	3,618	37,032	-	-	21,850	62,500	162,168
Maintenance and operations	-	-	-	4,622	10,950	-	-	-	15,572	15,572
Instructional materials	34,780	-	34,780	-	-	-	-	-	-	34,780
Testing materials	250	-	250	-	-	-	-	-	-	250
Food service	-	-	-	81,877	-	-	-	-	81,877	81,877
Supplies and materials	151,001	15,411	166,412	6,349	1,686	236	-	4,771	13,042	179,454
Travel, subsistence, and stipends	21,937	3,129	25,066	745	-	-	-	5,905	6,650	31,716
Insurance and bonding costs	2,871	147	3,018	-	13,941	-	-	3,720	17,661	20,679
Depreciation expense	13,127	-	13,127	12,694	13,109	-	-	-	25,803	38,930
Miscellaneous operating costs	13,303	6,204	19,507	1,080	1,227	-	-	17,444	19,751	39,258
Other debt service expenditures	-	-	-	-	-	-	75,006	-	75,006	75,006
Total Non-payroll Expenses	423,660	36,365	458,620	119,205	171,743	491	75,006	70,588	436,993	895,613
TOTAL EXPENSES	\$ 1,433,504	\$ 248,095	\$ 1,680,194	\$ 284,809	\$ 251,987	\$ 15,514	\$ 75,006	\$ 228,549	\$ 855,825	\$ 2,536,019

The accompanying notes are an integral part of these financial statements.

ECAP ENTERPRISES, INC.
(A Texas Nonprofit Organization)

**Statement of Functional Expense
For the Year Ended August 31, 2018**

	Program Services			Supporting Services						
	Instructional Services	Instructional and School Leadership	Total Program Services	Support Services - Student (Pupil)	Support Services - Non-Student Based	Community Services	Debt Service	Administrative Support Services	Total Support Services	Total Expenditures
EXPENSES:										
Teachers and other professional personnel	622,112	131,401	\$ 753,513	76,440	36,199	8,779	\$ -	100,931	\$ 222,349	\$ 975,862
Support personnel	142,442	45,685	188,127	76,633	41,346	-	-	18,474	136,453	324,580
Employee Benefits	141,532	9,037	150,569	8,659	2,613	1,421	-	7,958	20,651	171,220
Total Payroll Expenses	906,086	186,123	1,092,209	161,732	80,158	10,200	-	127,363	379,453	1,471,662
Professional services	12,827	-	12,827	9,500	11,287	-	-	49,135	69,922	82,749
Education Service Center Services	8,660	-	-	195	-	-	-	-	-	-
Contracted, maintenance and repair	-	-	-	60	9,867	-	-	-	9,927	9,927
Utilities	-	-	-	-	62,577	-	-	-	62,577	62,577
Rentals	46,636	715	47,351	830	4,829	-	-	-	5,659	53,010
Miscellaneous contracted services	56,578	10,592	67,170	8,562	47,513	-	-	22,315	78,390	145,560
Maintenance and operations	-	-	-	5,739	9,274	-	-	276	15,289	15,289
Instructional materials	3,510	-	3,510	-	-	-	-	-	-	3,510
Testing materials	-	-	-	-	-	-	-	-	-	-
Food service	-	-	-	67,828	-	-	-	-	67,828	67,828
Supplies and materials	27,456	8,576	36,032	5,686	6,645	102	-	873	13,306	49,338
Travel, subsistence, and stipends	6,079	4,291	10,370	238	-	-	-	4,818	5,056	15,426
Insurance and bonding costs	861	1,135	1,996	-	347	-	-	5,058	5,405	7,401
Depreciation expense	-	-	-	7,917	29,683	-	-	-	37,600	37,600
Miscellaneous operating costs	754	3,819	4,573	1,017	525	-	-	7,675	9,217	13,790
Other debt service expenditures	-	-	-	-	-	-	66,745	-	66,745	66,745
Total Non-payroll Expenses	163,361	29,128	183,829	107,572	182,547	102	66,745	90,150	446,921	630,750
TOTAL EXPENSES	\$ 1,069,447	\$ 215,251	\$ 1,276,038	\$ 269,304	\$ 262,705	\$ 10,302	\$ 66,745	\$ 217,513	\$ 826,374	\$ 2,102,412

The accompanying notes are an integral part of these financial statements.

ECAP ENTERPRISES, INC.
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Statements of Cash Flows
For the Years Ended August 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation school program payments	\$ 2,280,183	\$ 1,978,023
Grant payments	486,403	312,775
Other state and local revenue payments	22,312	19,830
Payments to vendors for goods and services rendered	(789,845)	(620,543)
Payments to charter school personnel for services rendered	(1,611,415)	(1,491,800)
Interest payments	(75,006)	(66,745)
Net cash provided by operating activities	312,632	131,540
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(89,735)	(19,358)
Proceeds from sale of land	-	109,016
Net cash provided by/(used in) investing activities	\$ (89,735)	\$ 89,658
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayments) or borrowings on line of credit	(39,956)	(5,601)
Principal payments on loans	(49,680)	(118,687)
Net cash used in financing activities	(89,636)	(124,288)
NET INCREASE IN CASH	133,261	96,910
CASH, BEGINNING OF YEAR	638,233	541,323
CASH, END OF YEAR	\$ 771,494	\$ 638,233
RECONCILIATION OF CHANGE IN NET DEFICIT TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 274,540	\$ 91,501
Adjustments to reconcile change in net assets to Net cash provided by operating activities:		
Depreciation	38,930	37,600
Loss on Sale of Property	-	91,228
Changes in operating assets:		
Due from Texas Education Agency	(23,107)	(9,137)
Changes in operating liabilities:		
Accounts payable	(7,233)	(52,562)
Interest payable	-	-
Accrued wages payable	20,292	(10,820)
Unearned revenue	-	(7,495)
Other liabilities	9,210	(8,775)
Net Cash Provided by Operating Activities	\$ 312,632	\$ 131,540

The accompanying notes are an integral part of these financial statements.

ECAP ENTERPRISES, INC.

(A Texas Nonprofit Organization)

Notes to the Financial Statements

August 31, 2019 and 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of ECAP Enterprises, Inc. (the “Organization”) were prepared in conformity with accounting principles generally accepted in the United States (U.S. GAAP). The Financial Accounting Standards Board (FASB) is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

Reporting Entity

The Organization is a not-for-profit organization incorporated in the State of Texas in July 1998 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Organization is governed by a Board of Directors. The Board of Directors is selected pursuant to the bylaws of the Organization and has the authority to make decisions, appoint the administrator of the Organization, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Organization.

Since the Organization received funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

Corporate Operations

The Organization was organized to provide educational services to students. The programs, services, activities and functions are governed by the Organization’s Board of Directors. The Organization operates under an open enrollment charter granted by the State Board of Education. The Organization is part of the public school system of the State of Texas and is, therefore, entitled to distributions from the State’s available school fund. The Organization does not have the authority to impose ad valorem taxes on its district or to charge tuition.

Programs and Support Services

The Organization operates the MeyerPark Elementary Charter School (the “School”). Support services consist of general administration functions that are necessary to coordinate the Organization’s programs and plant maintenance and operations necessary to maintain its facilities.

Standard Financial Accounting System

For all federal and state programs, the School used the net asset classes and codes specified by the TEA in the Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by a grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.

ECAP ENTERPRISES, INC.

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Notes to the Financial Statements

August 31, 2019 and 2018

Basis of Accounting and Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles.

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958-210, net assets, revenues, expenses, gains, and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor restrictions. Assets restricted solely through the actions of the Board of directors are reported as net assets without donor restrictions, board-designated.

Net assets with donor restrictions – Net assets are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

In addition, the Organization is required by Financial Accounting Standards Board's (FASB) Accounting Standards Codification ("ASC") Topic 958-205, Not-for-Profit Entities-Presentation of Financial Statements, to present statements of activities and cash flows.

When both restricted and unrestricted resources are available for use, it is the Organization's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates included in the financial statements are the depreciation of capital assets, which is based on the estimated useful lives of the underlying depreciable assets, and the functional allocation of expenses.

Contributions

The Organization accounts for contributions in accordance with FASB ASC Topic 958-605, *Accounting for Contributions Received and Contributions Made*. In accordance with FASB ASC Topic 958-605, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

ECAP ENTERPRISES, INC.

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Notes to the Financial Statements

August 31, 2019 and 2018

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions and net assets with donor restrictions in the reporting period in which the support is recognized. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributed Services

The Organization recognizes contributed services at their fair value if the services provide value to the Organization and require specialized skills, are provided by individuals possessing those skills, and would have been purchased if not provided by the contributors, as established by FASB ASC Topic 958-605. During the fiscal years ended August 31, 2019 and 2018, the Organization did not receive any services that would meet the criteria for recognition in the financial statements as prescribed in FASB ASC 958-605.

Cash and Cash Equivalents

For financial statement purposes, the Organization considers all highly liquid investment instruments with an original maturity of three months or less from the date of purchase to be cash equivalents. The Organization did not have any cash equivalents as of August 31, 2019 and 2018.

Revenue Recognition

Per Capita and State Foundation Aid revenues are recognized based on the reported student attendance. State and Federal grant revenues are recognized when services are rendered. Contributions and other revenues are recognized when received or unconditionally promised by a third party.

Capital Assets

Capital assets, which include land, buildings and improvements, furniture and equipment, vehicles, and other personal property, are reported in the financial statements. Capital assets are defined by the Organization as assets with an individual cost of more than \$5,000 and a useful life of greater than one year. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to thirty-nine years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized. Maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which in then treated as cost. The Organization had no donated capital assets as of August 31, 2019 and 2018.

Federal Income Tax

The Organization is a nonprofit corporation that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (“the Code”) and comparable State of Texas law. The Organization did not conduct any unrelated business activities in the current fiscal year. Therefore,

ECAP ENTERPRISES, INC.

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Notes to the Financial Statements

August 31, 2019 and 2018

the Organization has made no provision for federal incomes taxes in the accompanying financial statements. The Organization has also been classified as a publically supported organization, which is not a private foundation under Section 509(a) of the Code. Accordingly, contributions to the Organization are tax deductible within the limitation prescribed by the Code.

The Organization applies the provisions of FASB ASC Topic 740, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC Topic 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Management has determined that the Organization does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. Since tax matters are subject to some degree of uncertainty, there can be no assurance that the Organization's tax returns will not be challenged by the taxing authorities and that the Organization will not be subject to additional tax, penalties, and interest as a result of such challenge. The Organization's Federal income tax returns for years ending August 31, 2019 through August 31, 2018 are subject to examination by the Internal Revenue Service, generally for three years after they were filed

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Liquidity and Availability of Financial Assets

The following table reflects the Schools' financial assets, as of August 31, 2019, that are available to meet the School's cash needs within one year of the statement of financial position date.

	<u>2019</u>	<u>2018</u>
Cash	\$ 771,494	\$ 638,233
Due from other governments	45,818	22,711
Total	<u>\$ 814,024</u>	<u>\$ 660,944</u>

As part of the Schools' liquidity management, the school structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. During the majority of the year ended August 31, 2019, the School did not invest any of the small amounts of excess cash. Cash flow is monitored through monthly reviews of operating reports of actual revenue vs. expenses as compared to the official budget.

Reclassification

Certain reclassifications have been made to the 2019 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

ECAP ENTERPRISES, INC.

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Notes to the Financial Statements

August 31, 2019 and 2018

New Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02 – Leases (Topic 842), which supersedes existing guidance on leases and amends and supersedes a number of other paragraphs throughout the FASB ASC. This update will be effective for the Organization's 2021 annual financial statements. Management is currently evaluating the impact this update will have on the financial statements.

In August 2016, the FASB issued ASU 2016-15 – Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which clarified guidance on certain cash flow classification issues. This update will be effective for the Organization's 2020 annual financial statements. Management is currently evaluating the impact this update will have on the financial statements.

In November 2016, the FASB issued ASU 2016-18 – Statement of Cash Flows (Topic 230): Restricted Cash, which requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This update will be effective for the Organization's 2020 annual financial statements. Management is currently evaluating the impact this update will have on the financial statements.

NOTE 2: CASH

The Organization's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. These balances are partially insured by the Federal Deposit Insurance Corporation (FDIC). As of August 31, 2019 and 2018, the uninsured portion of these balances were \$595,405 and \$432,202, respectively, and such balances were secured with pledged securities held by the custodial bank. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the Organization's and the depository bank's agent custodial bank. The pledged securities shall be in an amount sufficient to protect Organization funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of FDIC insurance.

ECAP ENTERPRISES, INC.

(A Texas Nonprofit Organization)

Notes to the Financial Statements

August 31, 2019 and 2018

NOTE 3: DUE FROM TEXAS EDUCATION AGENCY

The charter school has earned but not received payment for several state and federal programs. As such, a receivable has been recorded for each of the funding sources shown below:

	<u>2019</u>	<u>2018</u>
Title I, Part A	\$ 7,641	\$ 2,732
Title II, Part A	1,188	-
Title IV, Part A	-	4,754
IDEA Part B, Preschool	(1,766)	750
IDEA Part B, Formula	(1,213)	2,777
Child Nutrition Program	10,828	11,698
Foundation School Program	29,140	-
	<u>\$ 45,818</u>	<u>\$ 22,711</u>

NOTE 4: LAND HELD FOR SALE

The land, and associated improvements, located at 4950 West Fuqua, Houston, TX sold in April 2018 for a loss of \$91,228, which was earlier held for sale during fiscal year 2017 and no longer needed for the Organization's operations due to the purchase of land and building at another location during the fiscal year 2018.

NOTE 5: CAPITAL ASSETS

Capital assets at August 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 752,500	\$ 752,500
Buildings and improvements	818,576	729,299
Vehicles and equipment	180,124	180,124
Total property and equipment	1,751,200	1,661,923
Less: Accumulated depreciation	(223,993)	(185,520)
Property and equipment, net	<u>\$ 1,527,207</u>	<u>\$ 1,476,403</u>

ECAP ENTERPRISES, INC.

(A Texas Nonprofit Organization)

Notes to the Financial Statements

August 31, 2019 and 2018

Depreciation expense was \$38,930 and \$37,600 for the year ended August 31, 2019 and 2018, respectively.

Capital assets acquired with public funds received by the Organization for the operation of the School constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets for the Organization.

NOTE 6: ACCRUED SALARIES

The Organization accrued \$55,280 and \$45,943 in salaries for the years ended August 31, 2019 and 2018, respectively.

NOTE 7: LINE OF CREDIT

The line of credit balance at August 31, 2019 and 2018 is \$0 and \$39,956, respectively. The line of credit was opened on October 1, 2012 with an extended line of \$75,000 and a stated rate of interest of 11.75% and 11.75% as of August 31, 2019 and 2018, respectively.

NOTE 8: LONG-TERM DEBT

The School obtained three loans in 2015 for a total of \$1.4 million from PrimeWay Federal Credit Union and La Rochelle Academy for the purchase of land and building at 13663 Main Street, Houston, TX. The loan from PrimeWay Federal Credit Union was to mature in December 2020, while the two loans from La Rochelle Academy were to mature in December 2020 and December 2035. However, in July 2018, the School refinanced all three loans with a new lender, Unity Bank, for \$1,224,000, resulting in a full payoff to the previous lenders. The new loan matures in July 2023 and carries an interest rate of 5.25%.

The School also obtained a loan in 2007 for \$399,784 for a period of 20 years from Kenneth Manesh and Sandra Manesh for the purchase of land located at 4950 West Fuqua, Houston, TX. However, as noted in note 4 above, the land associated with this loan was sold in April 2018 and the loan was fully paid off in July 2018.

ECAP ENTERPRISES, INC.
(A Texas Nonprofit Organization)

Notes to the Financial Statements
August 31, 2019 and 2018

Loans payable activity for the years ended August 31, 2019 and 2018 were as follows:

2019							
Description	Interest Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
Loans payable to:							
Unity Bank	5.25%	1,224,000	7/30/2023	1,224,000	-	\$ (49,680)	1,174,320
Total				<u>\$ 1,224,000</u>	<u>\$ -</u>	<u>\$ (49,680)</u>	<u>\$ 1,174,320</u>

Annual debt service requirements to maturity of the loan payable is as follows:

Year ending August 31,	Principal	Interest	Total
2020	\$ 34,187	\$ 51,847	\$ 86,034
2021	39,396	60,177	99,573
2022	41,545	58,029	99,574
2023	<u>1,059,192</u>	<u>51,118</u>	<u>1,110,310</u>
Total	<u>\$ 1,174,320</u>	<u>\$ 221,171</u>	<u>\$ 1,395,491</u>

ECAP ENTERPRISES, INC.

(A Texas Nonprofit Organization)

Notes to the Financial Statements

August 31, 2019 and 2018

NOTE 9: OPERATING LEASES

The Organization has non-cancellable operating leases for its classrooms and equipment. The future minimum rental payments required under the non-cancellable lease agreements for its facilities as of August 31, 2019, are as follows:

<u>Year ending August 31,</u>	<u>Amount</u>
2020	\$ 34,221
2021	12,876
2022	<u>11,566</u>
Total Minimum Lease Payments	<u>\$ 58,663</u>

The Organization's lease expense for the years ended August 31, 2019 and 2018 totaled \$75,683 and \$52,898, respectively.

NOTE 10: PENSION PLAN OBLIGATIONS

Plan Description

The Organization contributes to the Teacher Retirement System of Texas (the "System" or "TRS"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the School, but are the liability of the State of Texas. The System administers retirement and disability annuities, and death and survivor benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in the Texas Government Code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas legislature. The System issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the System's Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the System's Communications Department at 1-800-223-8778, or by downloading the report from the System's Internet website, www.trs.state.tx.us, under the TRS Publications Heading.

The risk of participating in this multiemployer defined benefit pension plan is different from a single-employer plan because: (a) the Organization is a legally separate entity from the State of Texas, (b) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (c) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be required to be borne by the remaining participating employers, and (d) if an entity chooses to stop participating in the multiemployer plan, there is no withdrawal liability to the plan. The Organization has no plans to withdraw from its multiemployer plan.

ECAP ENTERPRISES, INC.

(A Texas Nonprofit Organization)

Notes to the Financial Statements

August 31, 2019 and 2018

The following present information about the Organization's multiemployer pension plan as of and for the years ended August 31, 2019 and 2018:

Name of Pension Fund	EIN and Plan Number	Total Plan Assets		Accumulated Benefit		% Funded	
		2019	2018	2019	2018	2019	2018
TRS	N/A	\$181,800,159	\$176,942,454	\$209,961,325	\$209,611,329	75.24%	73.74%

The following presents information about the Organization's involvement in multiemployer pension plan for the years ended August 31, 2019 and 2018:

2019				
<u>Collective Bargaining Agreement</u>	<u>School's Contributions</u>	<u>More than 5% of Total Contributions</u>	<u>FIP/RP Status</u>	<u>Surcharge Imposed</u>
N/A	\$9,207	No	N/A	No
2018				
<u>Collective Bargaining Agreement</u>	<u>School's Contributions</u>	<u>More than 5% of Total Contributions</u>	<u>FIP/RP Status</u>	<u>Surcharge Imposed</u>
N/A	\$8,172	No	N/A	No

Funding Policy

Under provisions in State law, the System's plan members are required to contribute 7.7% of their annual covered salary for TRS Retirement for August 31, 2019 and 2018, and 0.65% of their annual covered salary to TRS Care for August 31, 2019 and 2018. The State of Texas contributes an amount equal to 6.80% of the covered payroll of the participating employees compensated with State funds for TRS Retirement for TRS Care. The School employees contributed \$109,075 and \$96,801 to TRS Retirement and \$9,207 and \$8,172 to TRS Care for the fiscal years ended August 31, 2019 and 2018, respectively.

ECAP ENTERPRISES, INC.

(A Texas Nonprofit Organization)

Notes to the Financial Statements

August 31, 2019 and 2018

NOTE 11: HEALTH CARE COVERAGE

During the years ended August 31, 2019 and 2018, employees of the Organization were covered by a Health Insurance Plan (the Plan). The Organization contributed \$255 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

NOTE 12: TEMPORARILY RESTRICTED NET ASSETS

At August 31, 2019 and 2018, temporarily restricted net assets of the Organization consisted of the following:

	<u>2019</u>	<u>2018</u>
Restricted for Food Program	\$ 62,205	\$ 63,476
Restricted for State Foundation School Program	<u>969,629</u>	<u>707,761</u>
Total Restricted Funds	<u>\$ 1,031,834</u>	<u>\$ 771,237</u>

NOTE 13: CONTINGENCIES

The Organization receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustments by the grantor agency. The programs administered by the charter school have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

NOTE 14: STATE AID

Charter schools in the State of Texas participate in the State foundation program. Under this program, each charter school is entitled to receive these revenues based upon student enrollment and average daily attendance. Each charter school is required to file enrollment and attendance reports at the close of each six weeks reporting period, and at the close of the year, actual attendance is calculated by the TEA and the attendance reports are subject to audit by the TEA and final State foundation program earnings may be adjusted as a result of any such audit. During the years ended August 31, 2019 and 2018, the Charter Holder earned \$2,309,322 and \$1,974,105, respectively, of Per Capita and State Foundation Aid (before any possible TEA enrollment and attendance audit).

ECAP ENTERPRISES, INC.

(A Texas Nonprofit Organization)

Notes to the Financial Statements

August 31, 2019 and 2018

NOTE 15: ECONOMIC DEPENDENCY

During the years ended August 31, 2019 and 2018, the Organization earned revenue of \$2,791,664 and \$2,275,770, respectively, from the Texas Education Agency (TEA), including grants passed through the TEA. This amount constitutes approximately 99% of total revenues earned for the year ended August 31, 2019 and 2018. Any unforeseen loss of the charter agreement with TEA or changes in legislative funding could have a material effect on the ability of the charter school to continue to provide the current level of services to its students.

NOTE 16: CHARTER HOLDER OPERATIONS

The charter holder operated only a single charter school (i.e., MeyerPark Elementary Charter School) in fiscal years 2019 and 2018 and did not conduct any other charter or non-charter activities.

NOTE 17: RELATED PARTY TRANSACTIONS

A non-administrative School employee is related to a member of the Organization's board of directors. In addition, a non-administrative School employee is related to members of the Organization's management. The related employees received \$222,363 and \$216,879 in compensation from the Organization during the years ended August 31, 2019 and 2018, respectively.

NOTE 18: BUDGET AMENDMENTS AND VARIANCES

Prior to the beginning of each school year, the School prepares and submits its annual budget for the next fiscal year. However, due to the significant inflows and outflows of students from the program, the budget must be amended on a regular basis.

Function 33 (Health Services) contained an unfavorable variance from budget primarily related to renting health related equipment instead of purchasing.

Function 36 (Cocurricular/Extracurricular Activities) contained an unfavorable variance from budget primarily related to a reduced amount of extracurricular activities.

Management has taken steps to ensure that future related budgets are amended to reflect changes in actual and budgeted amounts.

ECAP ENTERPRISES, INC.

(A Texas Nonprofit Organization)

Notes to the Financial Statements

August 31, 2019 and 2018

NOTE 19: MANAGEMENT'S REVIEW OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 27, 2020, the date which the financial statements were available to be issued. No change to the financial statements for the fiscal year ended August 31, 2019 is deemed necessary as a result of this evaluation.

SUPPLEMENTAL INFORMATION

ECAP ENTERPRISES, INC.

(A Texas Nonprofit Organization)

Schedules of Expenses For the Years Ended August 31, 2019 and 2018

Expenses:	2019	2018
6100 Payroll costs	\$ 1,640,916	\$ 1,472,205
6200 Professional and contracted services	379,536	362,678
6300 Supplies and materials	311,933	135,965
6400 Other operating costs	130,073	73,674
6500 Debt service	75,006	66,745
	<u>\$ 2,537,464</u>	<u>\$ 2,111,267</u>

ECAP ENTERPRISES, INC.

(A Texas Nonprofit Organization)

Schedules of Capital Assets For the Years ended August 31, 2019 and 2018

	2019			
	Ownership Interest			Total
	Local	State	Federal	
1510 Land and improvements	\$ 736,721	\$ 15,779	\$ -	\$ 752,500
1520 Buildings and improvements	795,738	22,838	-	818,576
1531 Vehicles	-	79,936	-	79,936
1539 Furniture and equipment	-	100,188	-	100,188
Total property and equipment	<u>\$ 1,532,459</u>	<u>\$ 218,741</u>	<u>\$ -</u>	<u>\$ 1,751,200</u>

	2018			
	Ownership Interest			Total
	Local	State	Federal	
1510 Land and improvements	\$ 736,721	\$ 15,779	\$ -	\$ 752,500
1520 Buildings and improvements	706,461	22,838	-	729,299
1531 Vehicles	-	79,936	-	79,936
1539 Furniture and equipment	-	100,188	-	100,188
Total property and equipment	<u>\$ 1,443,182</u>	<u>\$ 218,741</u>	<u>\$ -</u>	<u>\$ 1,661,923</u>

ECAP ENTERPRISES, INC.
(A Texas Nonprofit Organization)

**Budgetary Comparison Schedule
For the Year Ended August 31, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Actual Compared to Final Budgeted Amounts</u>		<u>Explanation (See references)</u>	<u>Final Compared to Original Budgeted Amounts</u>		<u>Explanation (See references)</u>
	<u>Original</u>	<u>Final</u>		<u>\$ Variance</u>	<u>% Variance</u>		<u>Unaudited</u>	<u>\$ Variance</u>	
REVENUES									
Local Revenue:									
5700	Local and intermediate sources	20,700	20,700	\$ 20,340	\$ (360)	-1.74%	-	0.00%	
State Program Revenue:									
5810	Per Capita and Foundation School Program Act Revenue	2,227,698	2,281,197	2,309,322	28,125	1.23%	(53,499)	-2.40%	
5820	State Program Revenues Distributed by Texas Education Agency	-	-	1,972	1,972	n/a	-		
Federal Program Revenues:									
5929	Federal Revenues Distributed by the Texas Education Agency	448,665	470,472	480,370	9,898	2.10%	(21,807)	-4.86%	
TOTAL REVENUES		<u>2,697,063</u>	<u>2,772,369</u>	<u>2,812,004</u>	<u>39,635</u>	<u>1.60%</u>	<u>(75,306)</u>	<u>-7.26%</u>	
EXPENSES									
Program services:									
11	Instruction	1,312,727	1,408,633	1,399,223	9,410	0.67%	(95,906)	-7.31%	
12	Instructional resources and media services	1,599	1,599	-	1,599	100.00%	-	0.00%	
13	Curriculum development and instructional staff development	42,659	46,498	34,281	12,217	26.27%	(3,839)	-9.00%	
21	Instructional leadership	2,600	2,600	-	2,600	100.00%	-	0.00%	
23	School leadership	257,377	258,173	248,095	10,078	3.90%	(796)	-0.31%	
31	Guidance, Counseling and Evaluation Services	29,147	29,147	24,612	4,535	15.56%	-	0.00%	
33	Health services	3,751	751	269	482	64.18%	3,000	79.98%	{c}
34	Student (Pupil) transportation	78,524	78,524	77,006	1,518	1.93%	-	0.00%	
35	Food services	171,709	171,709	177,387	(5,678)	-3.31%	-	0.00%	
36	Cocurricular/Extracurricular activities	12,809	12,809	5,535	7,274	56.79%	-	0.00%	
41	General administration	221,308	232,058	228,549	3,509	1.51%	(10,750)	-4.86%	
51	Facilities maintenance and operations	190,080	224,080	218,718	5,362	2.39%	(34,000)	-17.89%	{f}
52	Security and monitoring services	32,203	36,750	33,269	3,481	9.47%	(4,547)	-14.12%	{g}
61	Community Services	18,822	16,822	15,514	1,308	7.78%	2,000	10.63%	{h}
71	Debt Service	90,800	90,800	75,006	15,794	17.39%	-	0.00%	
TOTAL EXPENSES		<u>2,466,115</u>	<u>2,610,953</u>	<u>2,537,464</u>	<u>73,489</u>	<u>404.55%</u>	<u>(144,838)</u>	<u>53.74%</u>	
Loss on Sale of Land				-	-	100.00%	-	100.00%	
Change in net assets				274,540					
NET ASSETS, BEGINNING OF YEAR				<u>771,237</u>					
NET ASSETS, END OF YEAR				<u>\$ 1,045,777</u>					

Variance Explanation:

- {a} Additional professional development did not occur
- {b} The need for evaluation services decreased
- {c} Rented health equipment instead of purchasing
- {d} Reduced extra curricular activities

- {e} Paid off debt
- {f} Anticipated increased utility costs; therefore increased budgeted amount
- {g} Anticipated an increase in school security personnel
- {h} Decreased community based activities due to decreased federal funding

COMPLIANCE AND INTERNAL CONTROLS



**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
ECAP Enterprises, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of ECAP Enterprises, Inc. (the “Organization”), which comprise the statement of financial position as of August 31, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 27, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

4828 Loop Central Dr.
Suite 1000
Houston, TX 77081
Phone: 713.968.1600
Fax: 713.968.1601

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read "McConnell & Jones".

Houston, Texas
January 27, 2020

ECAP ENTERPRISES, INC.

Summary Schedule of Findings and Responses Year Ended August 31, 2019

SECTION 1:

SUMMARY OF AUDITOR'S RESULTS

Financial Statement Section

- | | |
|---|------------|
| 1. Type of auditor's report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| a) Material weaknesses identified? | No |
| b) Significant deficiencies identified, which were not
considered to be material weaknesses? | No |
| c) Noncompliance material to financial statements noted? | No |

SECTION 2:

FINDINGS – FINANCIAL STATEMENT AUDIT

None noted.

ECAP ENTERPRISES, INC.

Summary Schedule of Prior Year Findings and Current Status Year Ended August 31, 2019

FINDINGS – FINANCIAL STATEMENT AUDIT

None noted.